

**Title:**

Mr

**Forename:**

Alastair

**Surname:**

Ross

**Representing:**

Self

**Organisation (if applicable):**

**What do you want Ofcom to keep confidential?:**

Keep nothing confidential

**If you want part of your response kept confidential, which parts?:**

**Ofcom may publish a response summary:**

Yes

**I confirm that I have read the declaration:**

Yes

**Ofcom should only publish this response after the consultation has ended:**

You may publish my response on receipt

**Additional comments:**

Clearly it is in the interests of UK customers to seek continuous improvements in services of all kinds and those include postal services.

Market competition is often cited as the best way forward. Yet if we look at, for example, competition between mobile phone operators it is abundantly clear that their primary mode of differentiation is through geographic coverage which has led to an astonishing and very costly duplication of network coverage throughout the UK.

In the same way competition in postal services is leading to a proliferation of delivery services - particularly parcel vans - where there is unquestionably growth in the amount of

hydrocarbon fuel and human energy used. The twin results sought are that service increases and costs reduce.

Coming at this from a purely physics based approach one has to doubt the wisdom of expending more and more energy to reduce costs.

Turning back to the mobile phone example one would have thought that a better basis for market differentiation would be quality of customer service so that the soaring cost duplication of multiple networks could be better channelled into a much better degree of universal coverage.

I cannot help but think that quality of service should be the key differentiator in postal services. But that is already in steep decline as Post Office Ltd retrenches its network. Quality of service is of course harder to measure - unless you are a customer when quality of service is king. And here there is an interesting contrast with the US where restaurant service is incomparably better because individual earnings depend on it whereas the food is generally much worse because it is driven by price.

**Question 5.1: Do you agree with the assumptions set out in paragraph 5.86 above? If not, please set out your reasons.:**

In general yes always provided that "universal service" means what it says in terms of:

- 1 - a single uniform retail pricing structure throughout the UK for all services delivered to private customers and small businesses
- 2 - commitment to serving all publicly accessible customers throughout the UK (always subject to safety and reasonability of access)

I support the proposed EBIT banding. Royal mail should be able to return a profit which should be both fair and proportionate.

**Question 6.1: Do you agree with our proposal to impose a regulatory condition on Royal Mail to require it to provide the universal service as set out above? If not, what alternative approach would you suggest?:**

Yes. The duties of a Designated Universal Service Provision are, and must remain, the cornerstone of the service.

If our country were ever to find itself without even one DUSP the reforms fought for by Rowland Hill would have come to nought and would pick away at the fundamentals of fairness and equality that underpin life in the UK.

The DUSP condition is of course onerous. That in turn argues for special provisions to ensure that competitors without DUSP conditions do not unfairly shift their higher cost delivery obligations onto Royal Mail unless they are obligated to pay a price that properly defrays the higher costs Royal Mail incurs as subcontractor to them.

**Question 6.2: Do you agree that a price control is not an appropriate option at present for regulating Royal Mail's prices? If not, please explain why and how a price control could be implemented effectively.:**

Price control limits Royal Mail's ability to determine its own future. I would therefore be happy for Royal Mail to enjoy pricing freedom in the same way as its competitors.

HOWEVER:

1 - pricing freedom should not extend to differential pricing in remote areas. An important aspect of the DUSP is the uniformity of price throughout the UK at least as it applies to private and small business customers. (In this context the term "small business clearly needs definition.)

2 - Royal Mail should be free to price competitor access to its services as a delivery subcontractor in a way that ensures full recovery of the costs incurred in those subcontracts. To achieve that there would need to be internal modelling of those costs. Clearly it is not in the public interest for Royal Mail to use such a freedom to impose predatory / anti-competitive pricing so some measure of transparency must be available - perhaps mediated through OFCOM - to ensure fairness across the board. You appear to address this at 6.75 so I'm happy with that.

**Question 6.3: Do you agree with Ofcom's proposals to put in place regulatory safeguards as described above? If not, please provide reasons.:**

Yes.

**Question 6.4: Do you agree with Ofcom's proposals to put in place a monitoring regime? If not, please provide reasons.:**

Yes. However, you will be aware that any business required to submit to monitoring has costs associated with compliance and those will need to be met on a fair and reasonable basis. Inter-provider pricing is the right place for such costs to be met because the monitoring is primarily needed to ensure fairness in the inter-provider interfaces.

**Question 6.5: Do you agree with Ofcom's proposals for an index-linked safeguard cap on standard letters from 45p to 55p? If not, please provide reasons.:**

On the whole yes, but not without some misgivings. Prima facie market competition should provide the controls needed. In practice however competitor providers are not actually available for the vast majority of private and small business customers outside of the major conurbations.

**Question 6.6: Do you agree with Ofcom's proposal that the approach outlined above remains in place for seven years? If not, please provide reasons.:**

Yes. Any business needs time to adapt and seven years should be more than adequate.

**Question 7.1: Do you agree with our approach to assessing end-to-end competition? If not, please give your reasons.:**

End-to-end competition needs to be assessed based on the proposals made by any end-to-end competitor. Whilst cherry picking is the most obvious risk for a new end-to-end operator it is not the only risk.

I can, for example, envisage customer based cherry picking services that might be offered by third parties not engaged as part of an end-to-end operator. In this (currently hypothetical but entirely possible) model a client could pre-sort post in such a way as to allocate his outgoing mail to whichever were the cheaper operator on a letter by letter basis. A working model of such sorting would be trivial to construct and could offer customer advantage to the detriment of Royal Mail as provider under DUSP obligations.

Nor would it be necessary for a new operator to collude in making such systems available. I can envisage private developers offering independent products into the service user market to enable those users to take advantage of pricing differences where they occur.

If an end-to-end operator were to come forward I would advocate that they be placed on similar DUSP obligations regarding universality of service and universality of pricing to private and small business customers.

**Question 7.2: Do you agree with Ofcom's proposals to impose an obligation on Royal Mail to provide access at the Inward Mail Centre? If not, please give reasons.:**

I am disappointed by the comment at 7.64 "We are not confident that Royal Mail will have the incentives to offer adequate wholesale products, including appropriate safeguards, to its competitors."

As the UK moves towards a competition based model it has to recognise that competitors will engage in behaviours designed to favour their own services. It is unreasonable to restrict Royal Mail from developing its own services in a way that favours their own future.

At the same time we need to ensure that barriers to entry are not so high as to prevent entry of genuinely innovative and service enhancing operators. Equally, barriers should not be so low as to afford open season to any operator regardless of real value offering.

This area needs very careful consideration in order to ensure that the public is best served.

**Question 7.3: Do you agree with Ofcom's proposals in respect of regulating margin squeeze? If not, please give reasons.:**

Yes

**Question 7.4: Do you agree with our approach concerning the Terms and Conditions for access, including the role of equivalence and the regulation of zonal pricing? If not, please give your reasons.:**

I would agree with Postcomm that the concept of 'ensuring equivalence' should align with the concept of no undue discrimination or no undue preference.

In practice one has to recognise that the functioning of commercially competitive businesses is entirely opposed to that principle. They seek advantage and will use what advantages they can gain to build their market position. If other non-Royal Mail businesses are to function in that way then Royal Mail must also have the freedom to pursue its own market advantage.

The problem is really a transitional one in which the UK seeks to engender real innovative change in a market where the barriers to entry are high.

**Question 8.1: Do you agree with the objectives for regulatory financial reporting that we have set out above? Please provide details to support your response. :**

I agree with the objectives but doubt whether they will find effective reality in delivering the kinds of change that the UK seeks. I fear that the accounting strictures necessary to build useful measures may be such as to block real innovation in Royal Mail because they may cement in cultural beliefs and practices within Royal Mail that would be better to be challenged.

**Question 8.2: Do you agree that our regulatory financial reporting proposals, set out in this section and the supporting Annex, are appropriate and proportionate? Please provide reasons and evidence to support your views.:**

See answer to 8.1 above. I fear hardening of the arteries already.

**Question 8.3: Do you agree with our proposals on the rules and requirements contained in the draft Regulatory Accounting Guidelines and do you consider that they are likely to provide an appropriate and proportionate level of cost transparency and accounting separation?:**

See answer to 8.1 above. I fear a hardening of the arteries already.

**Question 8.4: Do you agree with our proposals set out above in relation to accounting separation? Are there any further risks that you think Ofcom needs also to consider in making decisions in this area? To the extent that you consider there to be risks associated with our proposals, how do you consider they might best be addressed?:**

See answer to 8.1 above. I fear a hardening of the arteries already.